



Department of Economics

Bachelor Thesis

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Land Restitution in Colombia

- Prospects of Increasing Agricultural
Productivity

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Abstract

This study concerns the prospects of the Victims and Land Restitution Law in Colombia, of successfully contribution in increasing agricultural productivity, through a restitution of land to the victims of the country's armed conflict. According to the theory of Giovanni Andrea Cornia very small-sized farms and large-sized farms have a lower relative productivity than middle-sized farms, due to the formers' lesser ability of absorbing the excess labour supply caused by the strong incentives to the large landowners to keep land unutilized. Distributing land from the large farms to the very small and middle-sized farms would serve the comparative advantages in labour, thus increase agricultural efficiency. The model of induced innovation explains how an agricultural system will respond to changes in production factor endowments and adjust the combination of production factors in the production as well as promoting technical innovation in the new production. The model also explains how transaction costs and collective actions will hinder the system from changing its combination of production factors and instead remain in an inefficient agricultural production. Since the current agricultural system is very dependent of its colonial history and agricultural policies of the past it is crucial to analyse the past of those policies to determine the prospects of the Victims Law contributing to the increased agricultural efficiency today. In this study I have combined the theories of Cornia and the model of induced innovation and applied it of the previous efforts of increasing agricultural productivity though land distribution, showing that the agricultural production during the time of those efforts did have a lower ability of absorbing labour than the comparative advantage of the country would suggest, and showing the transaction costs and collective actions responsible for the country not responding to the production factors endowments. These transaction costs were: rentier capitalism, excluding credit market conditions, problems obtaining land titles, a biased political power, international price competition and excluding agricultural conditions such as the biased criteria for producers receiving government support. These transaction costs and collective actions still characterize the agricultural system of Colombia and has the potential of threatening the Victims Law in contributing to increased agricultural efficiency. Policy suggestions for the Colombian government are: strengthening the politicisation of the poor farmers and the labour movement, reevaluating the criteria for producers receiving government support towards sustainable crop production, expand market credit access for poor farmers, establish a hedging system from international price distortions and keep government finances stable to reduce rentier capitalism.

Key words: Land reform, induced innovation, agricultural productivity, minifundio-latifundio, transaction costs, collective actions

Table of Contents

1. Introduction.....	4
1.1 Purpose.....	5
1.2 Method.....	6
2. Background to the Situation in Colombia.....	6
3. Theoretical Framework.....	9
4. The Case of Colombia.....	14
4.1. The Latifundio-Minifundio System and the First Agrarian Reforms in Colombia.....	15
4.2. Transaction Costs and Collective Actions of the First Agrarian Reforms.....	20
5. Market-led Land Reforms and Economic Liberalization	24
5.1. Transaction Costs and Collective Actions of the Market-led Land Reforms and Economic Liberalization..	29
6. Victims and Land Restitution Law.....	33
6.1. Transaction Costs and Collective Actions of the Law.....	35
7. Conclusion.....	39
7.1. Policy Suggestions.....	41
8. References.....	43
9. Appendix. Victims and Land Restitution Law..	48
Appendix 1: How the Law Functions.....	48
Appendix 2: Critique of the Law.....	50

1. Introduction

“Colombia is capable of significant productivity gains. In other words, putting more land in the hands of small farmers is likely to generate efficiency as well as equity gains, helping to raise the competitiveness of Colombian agriculture.” (World Bank, 1995, p. 41).

The fact that large inequalities within a country are preventing human development is well known, whether it is inequalities of income, resources, social security or education. Ever since the time of Spanish colonial rule Colombia has had a small but very privileged elite with exceptionally strong political and economic power. This elite typically rule over the larger mostly rural part of the population, creating very large inequalities in wealth, land and other resources. How to increase agricultural productivity through a more equal distribution of land has been one of the most important economic issues for Colombia for more than a century, however the efforts have been fruitless. Instead the society was even further polarized politically, socially and economically and almost half a century of internal conflict, drug trade and human right abuses has further increased the level of unequal land distribution. The violence has also produced the highest level of internally displaced people (IDPs) in the world. The high number of IDPs is closely connected with the high level of land concentration in Colombia.

In 2011 President Juan Manuel Santos signed a new law; Law 1448; *Ley de Víctimas y Restitución de Tierras*, (Victims and Land Restitution Law). This law is so far one of the most important legal contributions to the 21st century Colombia. For the President Juan Manuel Santos the declaration of this law indicates that he is the man to bring peace and justice to the Colombian people. The purpose of the law is to recognize the victims of the armed conflict in the country with a special focus in giving back the land that was stolen during the conflict. Although it was not intended as such, the law can be seen as more than just recognizing the victims of the conflict and their rights; the law can be seen as a land reform. Should the law be successfully implemented, land will be redistributed or rather

brought back from large landowners to small farmers, which in practice is the equivalence of a land reform. What are the prospects of the law being successful when regarded as a land reform?

1.1 Purpose

Among development economists the theory of how a decrease of the concentration of land ownership can increase agricultural productivity, is well established. The high level of land distribution inequality within the Colombian agricultural sector has since the beginning of the 20th century been widely recognized as an inefficient system that needs to be changed. Throughout that century the Colombian government made a lot of efforts to solve the question of how to achieve a more equal land distribution, unfortunately with very little success.

The agricultural problems of modern day Colombia is very much connected to and dependent on to the history of agricultural reforms in Colombia, which means that the agricultural policies of today have to take its past into great consideration. The purpose of this study is to try and explain how the theories of the relationship between land size and agricultural production can be applied on the Colombian case and what the prospects are for the Victims and Land Restitution Law to increase agricultural production. For this to be done it is crucial to analyze how the Victims and Land Restitution Law fit into the debate of land reform and agricultural productivity in Colombia. What lessons can be learned from the Colombian history of agricultural land reforms in relation to this new law? What obstacles within the agricultural system remain to be solved? What are the prospects of this law to contribute in increasing agricultural production?

1.2. Method

This study on the prospects of the Victims Law of spurring agricultural productivity will be based on the *Model of Induced Innovation* explaining how the agricultural system can adopt to new production factor endowments, and the theories of Giovanni Andrea Cornia of how middle-sized farms are relatively more effective than very small-sized and large-sized farms. As mentioned, the agricultural system of Colombia is very much dependent on its history of efforts for agricultural reform. To determine if the model of induced innovation and the theories of Cornia can be applied on the case of Colombia it is therefore crucial to put these theories in the context of the history of agricultural reform in Colombia.

In this study I present different parts of the history of agricultural reform in Colombia and analyze them with the model of induced innovation and the theories of Cornia - I will explain why these efforts were unsuccessful in increasing agricultural productivity. I will then incorporate these conclusions into the context of the Victims Law, to try and determine what must be changed in the agricultural system of Colombia for the redistribution of land, conducted by the Victims Law, to contribute to an increase in agricultural productivity as the model of induced innovation and the theories of Cornia suggest.

2. Background to the situation in Colombia

In the first half of the 20th century the political polarization in Colombia was growing. On the one hand were the conservatives with a strong support from the wealthy large landholders, and on the other side were the liberals who wanted to modernize Colombia and bring social justice to all Colombians (Thomson, 2011, p. 335). After the Second World War the ideological tensions between the liberals and the conservatives grew even more and it all escalated in 1948 with the assassination of the Liberal Party's presidential candidate Jorge Eliécer Gaitán,

throwing Colombia into a massively violent period known as *La Violencia* (Swedish Embassy in Colombia 1, 2011). In 1964 a group of rural farmers desperate to defend themselves and their property, formed the *Fuerzas Armadas Revolucionarias de Colombia (FARC)* and later that same year another large and leftist guerrilla was formed, the *Ejército de Liberación Nacional (ELN)*. The establishing of FARC, ELN and a few other left-wing guerrillas was the start of the current Colombian armed conflict (Uppsala Conflict Data Program, 2013). Since its formation a land reform has been one of the top political demands of the FARC, a demand for an end of the unequal elitist structure of the powerful *padrones* (landlords) that were and still are dominating the Colombian agriculture (Dobovšek & Odar, 2010, p.28-32).

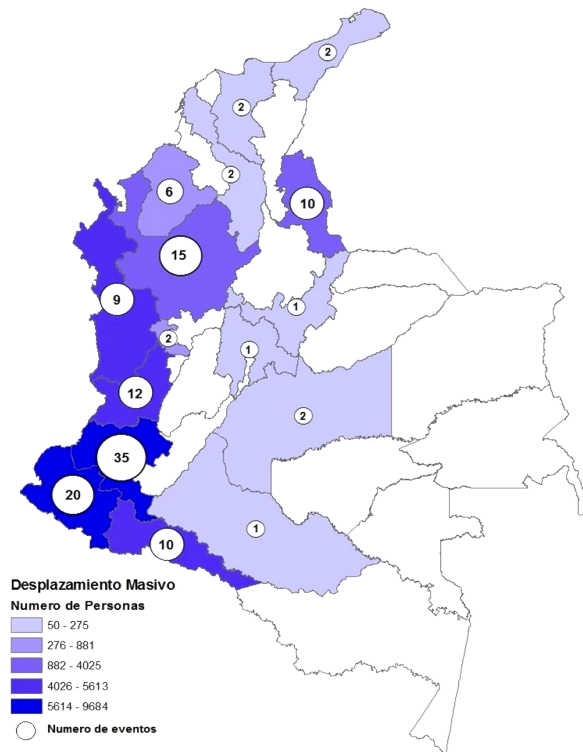
Under the 70s the leftist guerrillas grew with the financial and political support of the Soviet Union, kidnapping and terrorizing the big landowners and politicians etc. To protect themselves and their property the landowners and the political elite were allowed to form and hire paramilitary forces, later organized under the umbrella organization AUC (*Autodefensas Unidas de Colombia*) (Dobovšek & Odar, 2010, p.28-32).

The narcotic boom under the 1980s created large drug cartels and the “conflict quadrangle” that still torments Colombia today was completed: The government fighting the leftist guerrillas and the drug cartels, the drug cartels fighting the guerrilla along with the paramilitaries protecting the large landowners from the guerrillas, and vice versa. This quadrangle left very little room for neutrality for the Colombian people; especially the farmers in the rural areas were often forced to choose sides in the internal conflict, victimizing, terrorizing and into internal displacement (Swedish National Radio, 2010).

When Álvaro Uribe took office in 2002, a major military offence was launched towards the leftist guerillas as well as against the narco-industry. The guerillas were pushed back into the mountains and ill accessible territories. These military activities, along with the violence from paramilitary groups, guerrillas and narco-traffickers contributed to the massive increase in the number of IDPs. Today Colombia has the world’s largest number of IDPs in the world, 5,3 million, and the

number is still growing (Ibáñez and Querubín, 2004, p. 10-11; Norwegian Refugee Council et. al, 2012).

Figure 1



Source: CODHES , 2012

Figure 1 above shows the number of “massive displacement events” between January and August 2012, where one massive displacement is equivalent minimum 10 homes or 50 people (CODHES, 2012, p. 4-5).

The study of Ana María Ibáñez and Pablo Querubín shows the very close link between forced displacement and the concentration of land in Colombia (Ibáñez and Querubín, 2004, p. 2-10). Colombia has, according to the World Bank’s Human Development Report from 2008, a level of 0,86 on the Gini-index of land distribution (0 being the level of total equality and 1 being the level of total inequality) (Todaro & Smith, 2009, p.443). The UN Development Program report from 2011 of rural development in Colombia shows that 52,2 percent of Colombia’s cultivated land is owned by 1,15 percent of the landowners (UNDP, 2011).

In 2010 the defence minister of President Uribe, Juan Manuel Santos was installed, everyone expecting him to continue down the path laid down by Uribe, of trying to find a military solution to the armed conflict. However Santos surprised with a new agenda of social, political and economic reforms. His most famous initiative is indeed, *Ley de Victimas y Restitutions de Tierra*, The Victims and Land Restitution Law from 2011 (Swedish Embassy in Colombia, 2012). The representative of the High Commission of the United Nations for Human Rights, Christian Salazar Volkmann, praised the Victims Law, saying that it marks an historic advance to truly put the victims of the conflict in the center of attention (UN Office of the High Commission for Human Rights, 2011).

In September 2012 the peace negotiation between the government and the leftist guerrillas FARC and ELN was declared to begin. In these negotiations the question of land distribution is perhaps the most important question for the parties to solve if peace is to be reached. This is a major reason why the Victims and Land Restitution Law plays such an essential role in the Colombian politics.

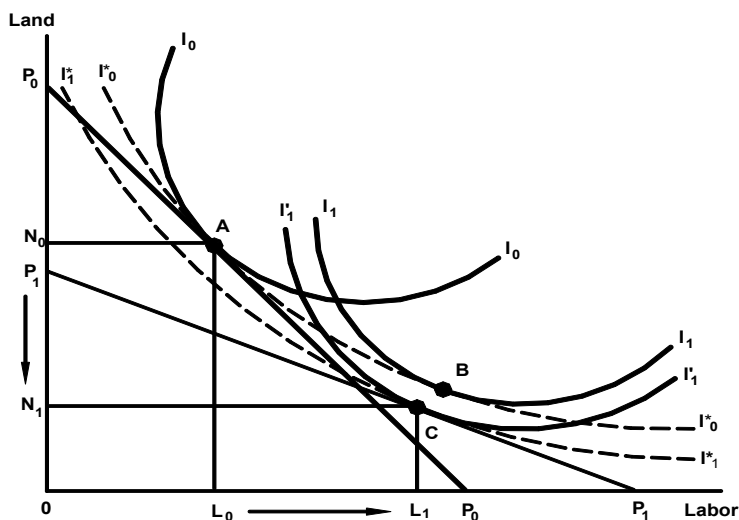
3. Theoretical framework

A theory of agriculture development is presented in Norton, Alwang & Masters' book *Introduction to Economics of Agricultural Development* in Chapter 11 *Theories and Strategies of Agricultural Development*. The basic mechanism of this theory is that a country or society will choose the combination of production factors land and labour, i.e. choose the technology that produces the most efficient result. In other words the agricultural technology of the country will represent the combination of resource endowments in which the country has a comparative advantage. Should there be any change in the resource endowments, due to technical or institutional changes that adjusts the price of one production factor, the price mechanism of the model will respond and propose a new combination of the production factors. Not only will the theory of induced innovation create incentives to select a new production factor combination, but also give incentives

to create new production technology using more of the now abundant production factor and less of the scarce production factor. In that way the model will continue promoting technological advances and increase the production efficiency (Norton et al, 2010, p. 212-213).

Using an example from Hayami and Ruttan's book *Agricultural Development*, the figure below illustrates how the model of induced innovation functions. The line P_0-P_0 is the ratio of price for land and labour, on which a country has found its most effective combination of land and labour at point A. The I_0 -curve is the technology used for the production at point A and the I^*_0 -curve is the innovation possibilities curve. If the price of either land or labour change the price ratio line will shift and the country will move along the innovation possibilities curve using a new technology. Here the price of labour relative to the price of land has gone down and the country will shift to the I_1 -technology and move from point A to B, along the innovation possibilities curve, I^*_0 . With time the incentives to increase the production efficiency will bring forth a technological or institutional improvement, shifting the technology curve to I'_1 moving the country's production to point C along the new price rate line P_1-P_1 . The country will now use relatively more labour and less land and moves to a favourable innovation possibilities curve I^*_1 (Norton et al, 2010, p. 213).

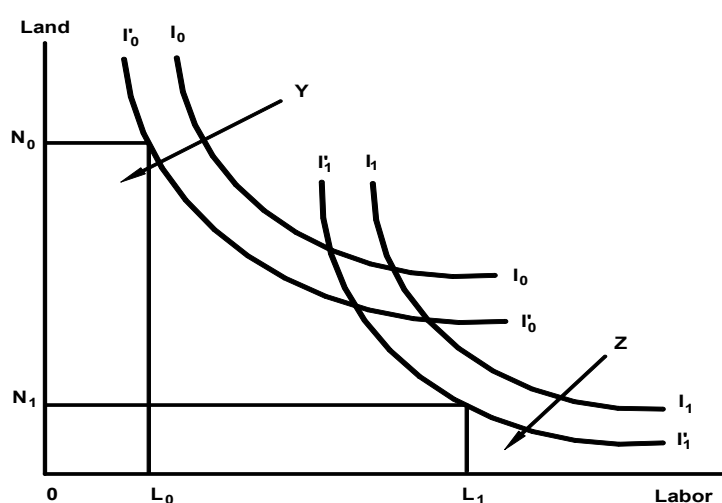
Model of Induced Innovation



Source: Norton et al, 2010, p. 213.

The model of induced innovation is based on the assumptions of perfect markets for products and factors, perfect information and independence for decision makers and all resources are allocated efficiently within the country. These assumptions are somewhat unrealistic, especially for the developing world. Agriculture product and factor markets are often affected by certain *transaction costs*, due to slow adjustment to information, unequal ability to gather and use information for the decision makers and as Norton, Alwang and Master put it, the fact that people are willing to benefit at the expense of others (Norton et al, 2010, p. 217-218). Agriculture product and factor markets are also often affected by the phenomenon of *collective action*. This occurs when a few, economically powerful and regionally concentrated agricultural producers prefer to act collectively to influence public policies in their favour. If the commodity produced by these actors is important, for instance for the security of urban food supplies or for national exports, the policy makers will act to help these few actors in the process of developing more efficient technologies for that particular production. Typically small sized farmers without strong political power will then be neglected, even though their use of production factors are more in line with the comparative advantages of the country (Norton et al, 2010, p. 219).

Model of Transaction Costs and Collective Actions



Source: Norton et al, 2010, p. 220.

This figure from Norton, Alwang & Master (2006), shows how transaction costs and collective actions will stop the change from the land intensive production function of Y to a labour intensive Z, by helping a few particular producers in moving from technology I_0 to I^*_0 , keeping the country from using its comparative advantage (Norton et al, 2006, p. 220).

Many theories for economic development claim that large and very small sized farms are shown to be significantly less effective than the medium-sized farms (Ray, 1998, p. 452-458). In Todaro & Smith's *Development Economics* it is argued that farms that employ more than 12 persons, normally called *latifundios*, along with farms that employ less than two persons, normally called *minifundios*, are significantly less effective than the middle-sized farms, the so called *family farms* and *multifamily farms*, the former employing 2-4 persons and the latter 5-12 persons (Todaro & Smith, 2009, p. 442).

Todaro & Smith bases their argument on Giovanni Andrea Cornia's study *Farm Size, Land Yields and the Agricultural Production Function*. The highly uneven land distribution in Latin America serves as a clear evidence to his argument, where large parts of the land remains unused in the hands of large landholders, leaving large parts of the labour force crowded on small plots of land in a condition of excess labour supply. This leads to the fact that large, middle-sized and small farms face different factor prices (price of land, labour, capital etc.), which gives them different access to resources and different incentives to produce. "Very generally, it could be said that the effective price of land and capital is usually higher for small farmers, whereas the effective price of labour is lower." (Cornia, 1985, p. 515).

According to the theory presented by Cornia the situation with severe excess labour supply brings the wage rate down close to zero, although in practice it will be almost equal to the level of the minimum purchasing power. The wage rate (price of labour) being so low allows the large landholders to employ labour until its marginal product equals that wage rate. In most cases this means that only a fraction of labour force are employed on the large farms. The often very limited

possibilities for non-farming jobs in the rural areas along with the scarce access to the credit markets, keeping small-sizes farming limited and inefficient. This preserves a large part of the labour force unemployed and the labour market in a condition of excess labour (Cornia, 1985, p. 515).

Connecting Cornia's theory to the model of induced innovation, the typical development country presented by Cornia cannot respond to the changes in resource endowments and production factor prices, which means that it cannot choose its most effective combination of agricultural production factors, land and labour. Agricultural production in the typical "Cornia country" could in the model of induced innovation be assumed to be at around point A in the model above, but although the price of labour is low and the price of land is high the country will not shift its production to a more labour intensive and land scarce production at point C. According to the model of induced innovation the typical Cornia country lack the mechanism that shifts agricultural production from point A to C according to its comparative advantages in labour as a production factor instead of land. There are not enough incentives for the large landholder to cultivate or sell its unused land.

These transaction costs and collective actions that keep the country from changing from the land intensive agricultural production to a labour intensive could be the result of several different factors. Cornia suggests that often one of these factors is the lack of access to financial institutions that provide credit to small size farmers and brings the credit market to a reversed position in regards to the labour market. Small farmers often have to rely on local moneylenders charging high interest rates, while larger and richer farmers are given disproportionately high credit ratings, consequently substituting labour for capital equipment on large holdings (Cornia, 1985, p. 515). Accordingly on the credit market small farmers face higher interest rates, thus a higher unit price on land than large farmers. The large estate farmers therefore generally have a more land intensive production and the "small farmers put into their production process a substantially higher amount of man-days per unit of farmland" (Cornia, 1985, p. 515).

Moreover Cornia mentions that one of the reasons why the large landowners choose to keep much of their land unutilized is that there is a tendency of holding land for status and prestige as a portfolio asset rather than for agricultural production (Cornia, 1985, p. 515).

4. The Case of Colombia

I will now show why the model for induced innovation along with the theories of Cornia can be applied on the case of the agricultural system of Colombia. This will be done in three different sections. In the first section I will explain why the minifundio-latifundio system can be applied on the case of Colombia in the case of the first agricultural reforms of the 20th century Colombia. I will show that the effective price of labour was low and the price of land was high in Colombia, as it indeed is in the theory of Cornia and present the transaction costs and collective actions that were keeping the Colombian agricultural system from changing its combination of the production factors labour and land to the comparative advantage. In the second section I will present the process of the late 20th century when the state-led agricultural reforms were replaced by the market-led land distribution and economic liberalization was introduced. Although the second section cannot directly be connected to the theories of Cornia it can be analyzed with the model of induced innovation. The economic processes explained in this section plays important roles for understanding the prospects of land distribution through the Victims and Land Restitution Law.

Indeed it is important to analyze the history of agricultural land reforms because the transaction costs and collective actions that prevented those previous reforms are still today evident in the agricultural system of Colombia. By analyzing the reforms of the past one can evaluate what needs to be done today. Hence in the third section the Victims Law will be presented and brought into the context of the model of induced innovation and the theories of Cornia. I will present the

potential transaction costs and collective actions that could threaten the implementation of this law as a method for increasing agricultural productivity.

4.1 The Latifundio-Minifundio System and the First Agrarian Reforms in Colombia

Since the colonial times land distribution in Colombia has been largely concentrated to a fairly small political and economic elite. Beginning in the 16th century the Spanish crown granted the Colombian *conquistadors* large estates along with the rights to labour and production surplus from the native indigenous peoples of Colombia, creating an agricultural system with few large landholders controlling large estates, often referred to as the *hacienda system* (Franco-Cañas & De los Ríos-Carmenado, 2011, p. 100-101). Also the efforts of the Colombian government to shore up the finances and the national credit by selling off public lands during the 19th century contributed to the foundation of Colombia's high level of land concentration (Berry, 2006, p. 4).

Frances Thomson explains how the first agricultural boom, the era of the coffee export in the mid and late 19th century challenged the hacienda system controlled by the large landholders. Local businessmen (*colonos*) attempted to establish themselves in the lucrative expanding coffee market through land tenancy and sharecropping. Small sized farms were established, reforming the agricultural system to what can be seen as the foundation of the minifundio-latifundio system in Colombia (Thomson, 2011, p. 333).

The coffee exports fueled economic development. As the market value of agricultural goods rose both the large landholders and the small sized farmers tried to increase their influence and market shares. Tensions soon erupted into violent clashes between the establishment and the new businessmen (Thomson, 2011, p. 333-334).

In the early 20th century the prices of coffee went down and Colombia suffered a long period of agricultural unproductivity. New demands for industrialization and development arose and the first liberal president after 50 years of conservative dominance took office (Thomson, 2011, p. 334). To avoid political instability and further violent confrontation the Colombian government signed Law 200, “The Land Law”, in 1936, ideologically inspired by the so called “Latin American Structuralist School”. Law 200 was supposed to increase agricultural productivity through the recovery of wasteland, secure the property rights and working conditions of small sized farmers and modernize the agricultural system by transforming the latifundios into sustainable farming businesses (Franco-Cañas & De los Ríos-Carmenado, 2011, p. 101-102). This was the time when the economic theories of the inefficient *minifunio-latifundio* system were established among the liberals of Colombian politics (Berry, 2004, p. 5).

Albert Berry’s study *Farm Size Distribution, Income Distribution, and the Efficiency of Agricultural Production: Colombia* (1972) confirms that Cornia’s theory about the negative relationship between farm size and agricultural productivity, can be applied on the case of Colombia, displaying statistics from the 1960 (Berry, 1972, p. 406-407).

Table 1

TABLE 5—FACTOR PRODUCTIVITY AND FARM SIZE IN COLOMBIA, 1960
(Value Figures in Thousands of 1960 Pesos)

Farm Size (Hectares)	Value of Output per Worker	Value Added per Worker	Value Added/Effective Hectare	Value Added/Hectare	Value Added/Value of Land and Capital	Overall Yield Index ^c	Yield Index of Cultivated & Fallow Land	Value of Crop Output/Hectare of Cropped & Fallow Land	Percent of Arable and Pasture Land in Crops
0-3	1.83	1.67	.75	1.37	.35	94.2 ^a	80.5 ^a	1.05 ^a	.87 ^a
3-5	2.37	2.08	.79	.86	.36	96.8 ^b	81.6 ^b	1.03 ^b	.77 ^b
5-10	3.15	2.71	.50	.73	.33	96.7	79.4	1.04	.66
10-50	4.15	3.47	.57	.44	.25	98.4	72.3	.96	.47
50-200	6.65	5.35	.38	.25	.17	117.8	68.8	.87	.28
200-500	10.76	8.61	.35	.21	.15	140.3	70.7	.90	.18
>500	17.16	15.07	.35	.13	.14	147.4	67.3	.89	.06
Total	4.44	3.71	.46	.28	.20				

^a 0-2 hectares rather than 0-3.

^b 2-5 hectares rather than 3-5.

^c Index of value of product per cultivated hectare assuming for each size category the distribution of land among crops characterizing the crop sector as a whole.

Sources and Methodology: Figures in the first five columns are “best estimates” (Berry); alternative estimates and the methodology of the various calculations are presented in Tables A-4, A-5, and A-7 of the cited study.

Source: Berry, 1972, p. 406

Berry explains that the small farms of Colombia are relatively more productive than the larger farms. Looking at the columns of *Value Added/Effective Hectare* and the *Value Added/Hectare* in the table above, the small sized farms are shown to be more effective than the larger sized farms. The reason why the columns *Value of Output per Worker* and *Value Added per Worker* show a positive relationship with farm size is the substantially higher quality of land that are possessed by the larger sized farms (Berry, 1972, p. 407). Although using a different measurement for farm size than Cornia used, there is no doubt that the studies of Berry on the negative relationship of land size and agricultural productivity in Colombia can be regarded as supporting evidence for Cornia's theory. However Berry's study finds no evidence that the smallest farms divert from the negative relationship between land size land productivity as the theories of Cornia suggest. Like Cornia, Berry finds that the higher factor productivity of the smaller sized farms can be explained by the lower factor price for labour and the higher price for capital of the smaller farms.

In spite of the increased violence, political polarization and the failing of Law 200, the economic theories of the inefficiency of the Colombian agricultural system prevailed, much through The Economic Commission for Latin America (ECLA). Many projects were launched to deal with the socio-economic problems caused by the unequal distribution of land and wealth in the regions of Colombia. it was argued that Colombia needed to combine economic development with agricultural land reform (Thomson, 2011, p. 336).

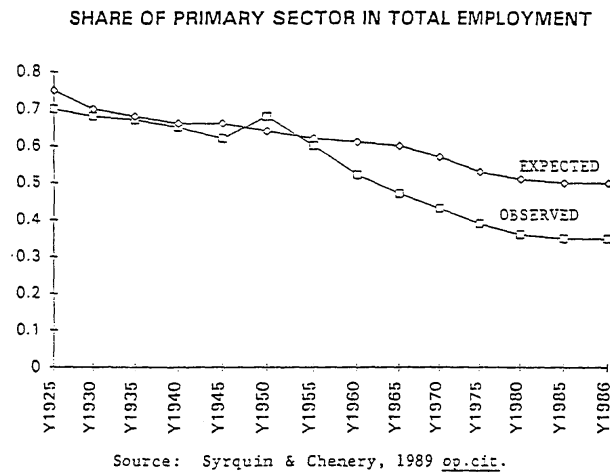
In 1961 the government launched the Agrarian Reform Law (Law 135) that was to be managed and protected by a new institute for agrarian reform (INCORA). Eder J. Phanor explains that the major purposes of the Agrarian Reform Law was to reform the agrarian social structure by distributing rural property so that land concentration would be decreased, the use of factor units harmonized and the non-landowner farmers would be given land. The lands that were to be distributed were foremost state-owned unutilized land. There were also an intention of creating a stable conditions and guarantees for the small sized tenants and sharecroppers though technical assistance, agricultural credit, health

and social security (Phanor, 1962).

Comparing the Agrarian Reform Law with the minifundio-latifundio theory of Coria one finds a very interesting aspect: In contrast to Coria's theory of the inefficiency of both minifundio and latifundios, this law contained an intention of prevailing the lands of the latifundistas and transforming the minifundios. Phanor writes: "It is the minifundia, not the latifundia, that constitute Colombia's major agrarian difficulties." This hypothesis was gathered from the World Bank report by Lauchlin Currie from 1950, in which it is argued that there were too many poor, inefficient farmers cultivating the Colombian slopes, creating a rural labour surplus, resource degradation and rural poverty. According to Currie the best solution would be to promote rural migration into the cities, freeing land to be cultivated by fewer and larger farms with more sophisticated production techniques (Heath & Binswanger, p. 24; Phanor, 1962). The idea of increasing agricultural productivity by decreasing the size of the latifundios was not established among Colombian policy makers, at least the ideas lacked political mandate.

Berry's conclusion that the ineffectiveness of the Colombian agriculture could partly be explained by the lower production factor price of labour, can be connected to the tendency of the Colombian agricultural to absorb labour. According to studies by Syrquin and Chenery and statistics from *Misión de estudios del sector agropecuario 1990*, the share of the Colombian labour force employed in the agricultural sector from 1925-50 was comparable to other counties in the region. However after 1950 the rate of employed farmers in Colombia went down dramatically and was no more equivalent to the share of total GDP the agricultural sector provided (Syrquin & Chenery, 1989; Heath & Binswanger, p. 25). The figure below shows how the observed share of the relative employment in the agricultural sector is lower than expected (World Bank, 1995, p. 31).

Table 2



This gap between expected and observed absorption of employment in the agricultural system can be explained by the different ability of the agricultural *crop production* and *pasture production*, the former having a higher ability of absorbing labour than the latter. In other words the crop production, such as rice, potatoes, soybeans, wheat and barley, is relatively more labour intensive while the pasture production (also called *livestock production*), such as cattle, pork and poultry production; is relatively more land intensive. Currie's report from 1955 identifies that the small-sized farmers are generally occupied with crop production, while the large-sized farmers generally handle livestock production (Phanor, 1962). The Colombian Geographic Institute explains that crop farming was in 1988, suited for occupying 16 per cent of the Colombian agricultural soil, but stood in reality for merely 4 per cent, while pasture use was suited for 13 per cent and stood for 35 per cent. This situation is identified as the "Grand sub-utilization of crop production" and can be explained by errors both in the political and in the economic system (UNDP, 2009, p. 77; World Bank, 1995, p. 31-32).

The sub-utilization of crop production in small and middle-sized farms can be regarded as the ultimate evidence of the connection of the agricultural system of Colombia and the Coria theory of middle-sized farms achieving higher total factor productivity than latifundios, because of its higher rate of labour as a production factor. The World Bank report of 1995 writes: "Following adoption of scale, neutral inputs such as agrochemicals, small farm yields increased by 82 percent in

1976-88, compared to an increase of only two percent for farmers with holdings above thirty hectares.” (World Bank, 1995, p. 7, 28).

4.2. Transaction Costs and Collective Actions of the First Agrarian Reforms

As in the model of induced innovation the possible transaction costs and collective actions for the agricultural system to change the combination of production factors according to the comparative advantages of the country can be numerous. For the Colombian agricultural system the transaction costs and collective actions are not just many but also entwined in each other creating a long chain of causal effects. The first efforts of the 20th century to increase agricultural productivity by redistributing land in Colombia faced many problems. The Agrarian Reform Law and the projects of INCORA did not produce the positive results hoped for. I will present these problems below in the perspective of the model of induced innovation.

Rentier Capitalism

The price of land in Colombia generally exceeded the capitalized value of farm profits. This happened because land value is based only partially on its agricultural potential. Owning land without an agricultural production purpose was a popular way for the wealthy to secure their financial resources and to hedge financial assets from inflation. Dale Adams calls this the problem of “land ownership absence”. The immobility of the land makes it a preferable form for financial security in credit markets, meaning additional utility when production risks cannot be assured. The informal, insufficient and suppressing structure of the land tenure system kept the transaction costs for agricultural production high, thus less effective (Adams, 1966, p. 51; Heath and Binswanger 1998, 28).

This situation of transforming land into rent revenues is by Richani referred to as

characteristics of rentier economy or rentier capitalism, mostly discussed in the context where a country's economy is dependent on substantial external rent, such as oil-revenues. Regarding Colombia investments in land is mainly based on expected rent revenues, (that is speculation rather than current productivity) (Richani, 2012, p. 52-53). The issue of rentier capitalism is closely connected to the Colombian tax system, constructed in a way that speculators and savers can place their capital in agricultural land without cultivating it to avoid paying higher tax rates (Heath & Binswanger, 1998, p. 26).

Excluding Credit Market Conditions

The INCORA failed in creating an accessible production credit system for the small-scale farmers. The INCORA projects and the state agriculture credit bank Caja Agraria lacked the institutional ability to lower the threshold for the small sized poor farmer to seem creditworthy in the eyes of banks and financial institutions, who demanded advanced production information and formal production registration, most of the time inaccessible for the small farmer. The credit support was in many cases instead used by the already strong rural elite and the small farmer had to rely on informal moneylenders charging unduly high interest rates (Thomson, 2011, p. 337).

The difficulties of the small farmer to receive credit are closely linked to issue of obtaining land titles for the small sized farmer. Without a proper land title it remained very difficult for the farmer to seem credit worthy and secure a sustainable agricultural production (World Bank, 2003, p. 33-34).

Problems Obtaining Land Titles

The lack of political power of the liberals undermined the Land Law (Law 200) and forced the government to sign Law 100 in 1944. This law was supposed to clarify the regulations of tenancy contracts. This clarification prohibited the

independent decision making of the tenants in the technical matters of farming, which undermined the redistribution of wasteland and the productivity of small sized farming. The law also decreased the ability of small sized farmers to obtain land titles (Thomson, 2011, p. 335).

Many of the INCORA projects aimed at securing the land title system in Colombia failed and the titles given mostly came into the hands of the already large landowners (Adams, 1966, p. 49). By the late 1980s 60 percent of the 3.3 million hectares of land titled over the years by INCORA, was in the possession of the larger landowners, which shows the high levels of inefficiency and corruption within INCORA (Berry, 2004, p. 12, 14).

The uneven distribution of land along with the difficulties to obtain land titles and production credits created an informal and much complicated system of land tenure in Colombia. Often the tenure contracts were short in time and had no legally reliable obligations and terms attached, which further worsened the prospects of conventional production credits and creating a long-term sustainable production. Adams writes: "The lack of bargaining power and alternative economic opportunity continue to effectively isolate the non-landowner from the land owner class" (Adams, 1966, p. 50).

Biased Political Power

The political power of the landowner elite has slowed down and hindered agricultural reform since the colonial times. This was especially evident during the first Land Law of 1936 (Law 200) when the liberals influenced by the "Latin American Structuralist School" tried to reform the latifundios into modern and competitive agribusinesses. The liberals underestimated the strong local political power of the large landholders who were much provoked by the Law 200. The implementation of the law produced local disputes where the large landholders had their strong political power in their favour. Instead of stabilizing the agricultural system Law 200 decreased the rights of the small farmer decreased the cultivation of wasteland and further concentrated the distribution of land to

the latifundistas (Franco-Cañas & De los Ríos-Carmenado, 2011, p. 102) (Berry, 2004, p. 7).

Ernest A. Duff agrees that the political power of the land owning elite was heavy, especially from the Society of Colombian Reform (Sociedad de Agricultores Colombianos or SAC), even when the Agrarian Land Reform Law of 1961 was signed and INCORA was formed. The landowners argued that the reimbursements for the land distributed from the large landowners were too small, that the restitution of land would draw away investments, that the redistributed land would create geographically inefficient circumstances etc. The INCORA were shown to be weak and soon lost its political support by many central actors such as the Catholic Church. After not too long the SAC and the other opponents managed to pressure the INCORA projects to focus the efforts of land reform on uncultivated land rather than on the lands of the large landowners (Duff, 1966, p. 76-77).

The biased political power of the Colombian latifundistas was essential for their ability to merge their interest into collective actions, as explained in the model of induced innovation. The latifundistas met the criteria explained in the theory section: they were few in numbers, economically powerful and regionally concentrated. Although the commodities they produced were not essential to the urban food supply, their livestock production (such as cattle) was important for the agricultural exports of Colombia (Thomson, 2011, p. 335-336; Berry, 2004, p. 10-11). This created excluding agricultural conditions.

Excluding Agricultural Conditions

Even though the violence of this period was extreme the Colombian economy grew steadily with an average of 6,6 percent in the 1950s. The collective actions of the agricultural elite led to the suppressing and displacement of the Colombian small farmers. Unionization of the rural labour force was heavily suppressed, which led to a 15 percent decrease in rural salaries between 1948-1958 (Thomson, 2011, p. 335-336). Instead of focusing the help towards the small

farmer's crop production, which used relatively more of the comparatively advantageous production factor labour than land, the rural elite succeeded in occupying almost all the support of the government. The suppressing of the small sized farmers led to the sub-utilization of crop production and overutilization of livestock production. The efforts of modernizing and optimizing the agricultural system through agricultural investments, mechanization and distribution of state-owned unutilized land did not reach the small farmer (Berry, 2004, p. 10-11). These investments, capital input subsidies and support by the Colombian government benefitted a massive expansion in the manufacturing and commercial agriculture mostly within the livestock production sector, an industry generally controlled by the large landowner elite. This support included import subsidies and export quotas to protect the domestic agricultural market from international competition (Berry, 2004, p. 10-11). "Both international and national forces continued to prioritize the 'modernization of the hacienda' in their policy decisions", argues Thomson (Thomson, 2011, p. 337). The World Bank report of 1995 supports this argument and claims that the Colombian government had sponsored a strategy of agricultural development that discriminated against small farmers (World Bank, 1995, p. 31-32). This is a textbook example of how collective actions function in the model of induced innovation.

5. Market-led Land Reform and Economic Liberalization

Like many other Latin American countries Colombia entered the 1980s with economic difficulties and a declining GDP growth. The efforts of INCORA and other state-led projects of improving the agricultural system had failed, further expanding the gap between the small-sized and the large-sized farmer. In the table below you can observe the concentration of land from small sized to large sized farming between 1960-88 (World Bank, 1995). This caused skepticism

towards the government led solution to the agricultural problems in Colombia land and shifted agricultural as well as general economic policies closer to the international neoliberal trend of market led solutions to economic and social issues (Fajardo, 1999, p. 54).

Table 3

Table A.3 - Colombia: Changes in Land Tenure, 1960-88

	1960 (^{'000} Hectares)	1988 (^{'000} Hectares)	Growth %
Owners	18,995	29,117	53.3
Sharecroppers	1,100	273	-75.2
Other Tenants	1,231	829	-32.7
<i>Colonos</i> /1	2,889	554	-80.8
Other/2	526	1,123	113.5
Total	24,741	31,896	28,9

Source: World Bank report No. 13437-CO (1995)

Law 35 of 1982 was the first reform in the process of substituting the state-led for the market-led land distribution and activated the public possibilities of purchasing land from INCORA. The amount of land sold through INCORA accelerated immensely from 4,400 hectares in 1981 to 96,098 hectares in 1992. However the small-sized farmers were kept excluded from the biased credit system and most of the lands were purchased by the large landowners, thus increasing land concentration (Fajardo, 1999, p. 54).

In 1994 another law to promote market led land reform was signed, Law 160. Even though Law 35 of 1982 had not meant a significant improvement for the small sized farmer, the distrust for government led reform due to high levels of corruption led to the belief in the market mechanisms to reach a better distribution of land, a method much praised by the World Bank report from 1995 (World Bank, 1995, p. 7). To improve the market position of the poor farmer family a 70 per cent subsidy along with the resisting 30 per cent credit, would be given toward the purchase of land (World Bank, 1995, p. 43-44).

In 2003 President Uribe seemed to have said the final goodbye to the state led

reform by replacing INCORA with INCODER (Colombian Institute for Rural Development). INCODER was to operate under the new model for voluntary negotiations, where the market would act as the middle hand for distributing land.

Analyzed in the model of induced innovation the market-led land distribution were initiated to replace the state-led land reforms as the mechanism to shift the use of agricultural production factors to the comparative advantages of Colombia. The neutral free market was supposed to replace the state initiatives to remove the transaction costs, such as the biased credit market and the corrupt land title system.

*

Another international trend that influence Colombian politics was the liberalization of the general economy and the belief in profitability gains of the international free trade market. Although not being a reform to improve the redistribution of agricultural land, the *Apertura*, as it was called in Colombia, did transform the conditions of the agricultural system in Colombia. It is important to analyze effects the Apertura had on the Colombian agriculture because it was an effort of locating the inefficient government subsidy dependent actors in the Colombian economy, and this did concern a large part of the powerful latifundistas. The Apertura was, like the theory of Cornia, a method to increase agricultural productivity, however using a different economic tool. It is crucial for the prospects of the Victims Law to increase agricultural productivity to learn the lessons from the Apertura of how the comparative advantage in the agricultural production factors can be found.

Before 1990 Colombia had practiced in large the classic import substitution policies that characterized many other Latin American countries such as Argentina, Brazil and Venezuela. With export subsidies, import tariffs, marketing and credit support and technical assistance, the domestic prices and supply of agricultural goods were stabilized and protected from international competition (Jaramillo, 2001, p. 821). As explained in the previous section this support from

the government was mainly targeted to the mechanized and commercial farming of the large-size landowners mostly in the livestock production, and the small sized crop farmers were excluded.

The liberalizing the Colombian economy of the *Apertura* started in the beginning of the 1990s. This new model was justified by pointing to the stagnating growth and declining productivity of the 1980s. These reforms were expected to expand markets for Colombian products, clean the Colombian economy from unsustainable businesses dependent on government subsidies and promote technological improvements in all sectors of the economy (Jaramillo, 2001, p. 822). Analyzed in the model of induced innovation the problems the economic liberalization was expected to solve could be connected to the transaction costs explained in the section about “Excluding Agricultural Conditions” (p. 22), about the government’s support for large livestock production in the Colombian manufacturing agriculture, which was discriminating small-sized crop farming and hindering an increased agricultural productivity. Looking again at the model of induced innovation the expectations of promoting technological improvements can be seen as an effort of improving the ability of the agricultural system to shift its innovation possibilities curve and move production from point B to point C.

The Colombian economy opened up to international direct investments and started reducing trade tariffs on imported products and goods. This had large effects on the prices of agricultural goods on the Colombian market, whose average tariffs were reduced from 31.5 per cent to 15 per cent between 1991 and 1993 (Jaramillo, 2001, p. 823). The inflow of foreign capital appreciated the Colombian peso, making the prices of Colombian products and goods relatively more expensive, thus reducing the competitiveness of the Colombian exports (Thomson, 2011, p. 342). Parts of the Colombian agricultural sector were hit hard; the exports of barley, cotton, soybeans and wheat declined massively (see Table 4 below) and many farmers reorganized their production towards cattle pasture (Jaramillo, 2001, p. 823). Also the cultivation of coca skyrocketed from 40,100 to 163,300 hectares in just ten years (UNODC, 2006).

This situation is similar to the phenomenon of “Dutch Disease”, conventionally known as the phenomenon of a country’s decline in the manufacturing or the agricultural sector, as a result of the exploitation of natural resources due to the appreciation of the local currency from the inflow of foreign capital (Ebrahim-Zadeh, 2003).

Table 4

VALUE OF PRODUCTION, 1990 AND 1997 (in Billions
1975 Pesos)

	1990	1997	Growth (%)
Annual crops	35.6	28.5	-3.2
Rice	6.9	6.0	-2.1
Potatoes	6.3	7.0	1.4
Maize	5.6	4.5	-3.1
Vegetables	4.8	5.1	.8
Cotton	3.4	1.2	-15.1
Sorghum	2.8	1.2	-12.3
Soybeans	2.3	.9	-13.5
Beans	1.9	2.0	.5
Wheat	.7	.3	-10.5
Barley	.5	.1	-23.8
Other*	.4	.3	-5.1
Perennial crops	60.8	69.6	1.9
Coffee	18.0	13.7	-3.9
Sugarcane	9.2	12.2	4.0
Plantain	6.9	7.6	1.4
<i>Panela</i> cane	5.9	6.9	2.2
Flowers	5.6	7.6	4.3
Oil palm	3.9	7.1	8.9
Cassava	3.1	2.7	-2.1
Fruits	2.9	5.8	10.4
Bananas	2.3	2.9	3.4
Cocoa	1.6	1.5	-.9
Other†	1.4	1.6	1.9
Total agriculture	96.6	98.1	.2
Cattle	34.1	40.0	2.3
Pork	2.5	3.2	3.4
Poultry	13.8	21.7	6.5
Total livestock	50.4	65.7	3.8
Total farm output	147.0	163.7	1.5
Exportable crops‡	47.6	46.8	-.2
Importable crops§	24.7	22.1	-1.6
Nontradable crops	74.7	94.8	3.4

SOURCES.— Author’s own calculations; and Ministerio de Agricultura, *Anuario Estadístico: 1997* (Statistical yearbook: 1997) (Bogotá: Ministerio de Agricultura, 1998).

* Sesame seeds, peanuts, and light tobacco.

† Yams, jute, export plantains, coconut, and dark tobacco.

‡ Coffee, sugarcane, flowers, bananas, and cocoa.

§ Rice, maize, cotton, sorghum, soybeans, barley, wheat, and oil palm.

|| Potatoes, beans, plantains, *panela* cane, and cassava.

Source: Jaramillo, 2001, p. 326

While agricultural exports decreased, the imports increased unemployment as well as underemployment, which created an expansion of the informal economy and increasing poverty (Richani, 2005, p. 118). The large landowners started to pressure the Colombian government to reestablish the agricultural subsidies. The government’s response was to announce a “Reactivation Plan” including

economic support for troubled agribusiness and special tariff treatment for “politically sensitive crops”, such as palm oil, sugarcane, flowers and bananas (Jaramillo, 2001, p. 824). The production of these new crops were often established in areas of intense conflict and often linked to paramilitary groups, hence the even further incorporation of agricultural production into the armed conflict (Thomson, 2011, p. 342-343).

On the positive side Jaramillo’s calculations points out that if the upper decile is excluded, the per capita income for the rural population in Colombia experienced an increase by 1,4 percent from 1990-1995. If the upper decile is included the total per capita income for the rural population declined by 5,7 percent during that time, indicating that the extreme economic gap within the rural population were tightened. Jaramillo mentions three major explanation factors. First the rural labour force, especially the lower income groups, filled the new non-agricultural urban employment opportunities. Second the crops that expanded after the Apertura were many of the most labor-intensive ones in Colombian agriculture, which is in line with the comparative advantages of the agricultural production factors. The third major explanation lies in the increasing of government spending on strengthening social security for the low-income part of the population (Jaramillo, 2001, p. 835-838).

5.1. Transaction Costs and Collective Actions of the Market-led Land Distribution and the Economic Liberalization

Rentier Capitalism

Step by step the state-led model for redistributing land was undermined and replaced by the market-led model, but the problems of rentier capitalism prevailed. As during the time of the INCORA projects the wealthy elite kept land without cultivating it as a hedge against inflation and taxes as well as for its value

as a stable investment for the financial portfolio and for its considerable value of status. As before this caused an overvaluation of land in the sense that land was valued above its prospects of agricultural revenue.

Excluding Credit Market Conditions

The modified prices of the land bought by the latifundistas produced a biased credit system especially in the Caja Agraria (Agricultural Bank on Colombia). Even though the government provided a 70 per cent credit grant for poor farmers, the appreciation of the price of land above its capitalized value of farm profits made it impossible to amortize loans for land purchase exclusively from the returns of farm productivity. This alienated the small farmers even further from the credit market and pushed many small farmers into illegal agricultural production that provided higher returns (Fajardo, 1999, p. 54; World Bank, 1995, p.7; Benítez Vargas, 2005).

Biased Political Power

The market was supposed to act the mediator of two voluntary counterparts, one buyer and one seller of land. But the authorities could not control the factors that made the market unbalanced with corruption and violence. As under the efforts of INCORA the latifundistas continued using their political power to negotiate the disposable qualities and quantities of the land to their advantage. Thomson refers to the aphorism of some of the paramilitary groups: “if you do not sell we will negotiate with your widow”. Thomson writes that the market-led approach to the land issue gravely understated the role of social and political actors in the agrarian system of Colombia (Thomson, 2011, p. 343).

The market-led land distribution reform failed in creating enough incentives for the latifundistas to sell their land. These transaction costs (often connected to collective actions) were the major factors that kept land markets of Colombia

highly segmented. The transaction frequency of land within small and large farmer groups are quite high, while the transactions from large farmers to small farmers are very limited (World Bank, 2003).

*

International Price Competition

When the Colombian economy opened up to international competition the prices of Colombia's agricultural goods were heavily affected. There were measures within the Apertura program to try to ease the effect of international price differences on the Colombian national commodity prices, but these measures were ill prepared and badly timed when put into use and could not hinder the outbreak of the agricultural crisis. Although the intensions were economically sustainable the leap from the subsidy dependent agricultural system to the lower prices of the international competition was too big (Jaramillo, 2001, p. 823).

The foreign capital of the Apertura did create a boom in the non-agricultural sectors where 163,000 new jobs were created mostly in the service and financial sectors (Jaramillo, 2001, p. 834-35; World Bank, 1995, p. 37). However, as Richani (2005) points out the non-agricultural sector was not entirely prepared to absorb the new excess labour supply; the supply of non-skilled labour was very high whereas the demand for skilled labour of the emerging non-agricultural market could not be met, which led to unemployment, poverty, rural violence and other social issues (Richani, 2005, p. 117-118).

Although not technically a transaction costs in the model of induced innovation as such, the Apertura period did have serious implications on the Colombian agricultural production and the phenomenon of international price competition along with the currency appreciation does have real relevance for the prospects of the increasing agricultural production.

Excluding Agricultural Conditions

Jaramillo suggests that the liberalization of the economy may have decreased agricultural productivity in Colombia, but that decreased part of the agricultural production were mostly occupied by the wealthy large landowners, who's revenues were mostly dependent on government subsidies and were prevailing the status quo of high inequalities in the country. The *Aperura* was an effort to transform the economy towards its comparative advantages, all well according to the traditional international trade theory. The imports tariff and domestic production subsidies that though the collective actions of the latifundistas had protected their agricultural hegemony were initially reduced radically, however after a few years re-established yet again under the political pressure of the collective actions of the rural elite.

In the words of the model of induced innovation the collective actions through the political pressure of the rural elite kept hindering the agricultural system to shift its production factors towards the comparative advantage of the country (moving from point A to point B), were initially removed, but soon re-established. In the model of transaction costs and collective actions this meant that new efforts to develop the existing production technology from technology I_0 to I^*_0 in the land intensive production Y instead of changing the combination of production factors to the labour intensive production Z.

This again contributed to the biased and ineffective agricultural system, where, as Jaramillo mentions, the subsidy dependent sugar cane industry could establish. The government's protection of the sugar cane industry serves as a perfect example of how the government could not neglect the interests of the rural elite producing a commodity that is crucial for the agricultural exports of the country – yet another classic example of collective actions functions (Jaramillo, 2001, p. 834-35). This view is supported by the World Bank report of 2003, in which it is claimed that the “trade protections and incentives such as price bands, import restrictions, and high tariffs have not supported the products with greatest comparative advantages” (World Bank, 2003, p. 23).

6. Victims and Land Restitution Law

Ley the Victimas y Restitución de Tierras - "By introducing measures of attention, assistance and reparation for victims of armed conflict and other provisions"(Ministry of Internal Affairs and Justice of The Republic of Colombia, 2011, p.1).

On June 10th 2011 the Colombian president Juan Manuel Santos signed Law 1448, The Victims and Land Restitution Law, recognizing the victims of the Colombian armed conflict and their right for indemnity in form of health care, social recognition, economic recoupment or the restitution of land. The extent of the Victims Law has no match in the Colombian modern history; the government expects to meet the rights of 4 million victims and restitute 6 million hectares of land (Colombian Senate, 2011). (For a more thorough presentation of the Victims Law and the critique towards it, see the Appendix.)

As explained in the section about the background of the situation in Colombia, the displacement of the rural small-sized farmers has been massive during the late 20th century and the beginning of the 21st century. Dario Fajardo has no doubt that the land grabbing has further increased land concentration, reduced the productivity of the Colombian agriculture and contributed to the agricultural and social crisis in the rural areas of Colombia (Fajardo, 1999, p. 8-15).

Table 5

Table A.1.14. Distribution of Rural Land in Colombia, 1998

Farm Size Group (ha.)	Farms		Land Area		1998 Appraisal Value	
	Number	%	Hectares	%	Million Pesos	%
Less than 1	754,822	35.4	272,082	0.5	471,580	6.5
1 to less than 3	492,505	23.1	848,210	1.6	587,759	8.1
3 to less than 5	210,731	9.9	794,549	1.5	402,806	5.6
5 to less than 10	222,668	10.4	1,549,985	3.0	621,025	8.6
10 to less than 20	165,581	7.8	2,305,440	4.4	718,393	9.9
20 to less than 50	156,916	7.4	4,935,566	9.5	1,059,923	14.7
50 to less than 100	70,804	3.3	4,834,056	9.3	842,353	11.6
100 to less than 200	34,463	1.6	4,672,245	9.0	742,868	10.3
200 to less than 500	16,987	0.8	5,006,676	9.6	757,590	10.5
500 to less than 1,000	4,298	0.2	2,983,854	5.7	334,003	4.6
1,000 to less than 2,000	1,575	0.1	2,114,675	4.1	158,355	2.2
Greater than 2,000	1,458	0.1	21,793,028	41.8	536,324	7.4
Total	2,132,808	100.0	52,110,366	100.0	7,232,979	100.0

Source: Instituto Geográfico Agustín Codazzi, cadastral records for 1998.

Source: World Bank, 2003, p. 57

The UNDP report from 2011 also supports the theory of Cornia and Fajardo (1999) using the measurement of the organization Acción Social where the land estates are divided into five groups after size much like the minifundio-latifundio presented in Todaro and Smith (UNDP, 2011, p. 49-50). The interesting part of the UNDP report from 2009 and the studies of Fajardo (1999), from the perspective of the Cornia theory, is that they also confirm the lower agricultural productivity of the minifundios in relation to the middle-sized farms, while the older studies of Berry (1972) and the theories behind the 1936 Land Law and the 1961 Agrarian Reform Law only recognized the lower productivity of the larger latifundios. The Victims and Land Restitution Law is indeed not intended to as a land reform increase the agricultural productivity though a redistribution of land and President Santos and his government are reluctant to referring to it in such terms. The premium purpose of the law is to solve the injustices that have affected the victims of the armed conflict. However as mentioned before the reimbursement to the victims in form of land given back is in practice the equivalence of a land reform. The Victims Law intends to redistribute land to its previous owners, whether the government, foreign companies or large landowners currently possess it.

The study of Ana María Ibáñez and Pablo Querubín shows the very close link between forced displacement and the concentration of land in Colombia (Ibáñez and Querubín, 2004, p. 2-10). Also there is substantial evidence that large landowners and foreign companies have used paramilitary groups to drive away small peasants, to increase the land areas of the large landowners themselves (CBS, 2009; Bajak, 2006; Summers, 2102, p. 221). Therefore it is reasonable to believe that the Victims Law could decrease the concentration of land, thus increase agricultural productivity in Colombia. In contrast to the previous initiatives for land reform in Colombia, this law would not just increase the minifundios to increase agricultural productivity, but also decrease the latifundios, all well according to the theory of Coria.

“Colombia is capable of significant productivity gains. In other words, putting more land in the hands of small farmers is likely to generate efficiency as well as equity gains, helping to raise the competitiveness of Colombian agriculture.” (World Bank, 1995, p. 41).

6.1. Transaction Costs of the Victims and Land Restitution Law as a Land Reform

Analyzing the previous efforts made to increase agricultural productivity by distributing land, there have been substantial structural transaction costs and collective actions in the way. Signing a law to promote the redistribution of land has indeed not been enough to actually increase agricultural productivity and there will be no exceptions made for the Victims Law. For the Victims Law to be successful in increasing agricultural productivity several substantial transaction costs and conditions for potential collective actions need to be addressed and changed. Many of these transaction costs have affected the agricultural system of Colombia for more than a century and still have strong connections within the agricultural system.

Rentier Capitalism

Still today the agricultural market is biased, as it has been during the past century in the state-led efforts for land distribution as in the market-led model for land distribution. Still today the Colombian agricultural system can be characterized as a rentier economy, where rural property serves as a stable financial insurance against possible inflation and as a stable asset in the financial portfolio. Also the wealthy landowners still often value to keep their less efficient latifundios for the considerable status they bring, even though there are agricultural efficiency improvements to be made. Rural land continues to be priced for more than just its potential agricultural productivity and the poor farmer continues to be

discriminated (Todaro & Smith, 2009, p.465).

After distributing lands according to the Victims Law the agricultural market for land needs to be balanced between the rural elite and the rural poor. The challenges of the Apertura period with the uneven balance between the supply and the demand side of land transfer remains to be solved (World Bank, 1995, p.7).

Excluding Credit Market Conditions

Although several new credit laws have been passed since then the Apertura period there are still laws that discriminate the small-sized farmers from production credit benefits, such as the Law 101 of 1993, which offers an indefinite extension for credit subsidies and low interest rates for agricultural producers who qualify for certain working capital loans, which mostly only the large landowners do. The overvaluation of agricultural lands due to rentier capitalism in the agricultural system continues to undermine the poor farmer who cannot meet the high amortization demands and interest rates purely from the revenues of legal crops, which fuels the spreading of narcotic production (World Bank, 1995, p.7). Also the authorities are experiencing more trouble recovering overdue loans from the large producers than from the small farmers (Heath & Binswanger, p. 33). The ambition for improving the credit availability for the low-income part of the population is defined in the National Plan for Development for 2011-2014 (Departamento Nacional de Planeación, 2011, p. 17), but how to implement this ambition is yet to be answered.

Problems Obtaining Land Titles

The problem of false, insufficient and incorrect land titles has been one of the biggest issues when deciding land ownership and restituting land in Colombia, which was very evident during the INCORA processes as well under the market-

led land distributions. The lack of political representation for the small sized farmer has undermined the rights and prospects of the rural population. The corruption within the land title institutions is still a major issue and often false land titles are constructed and sold to foreign companies. This has created a very complicated task for the restitution of land in the Victims Law; deciding who actually possess the legitimate land title and if that land title has been transferred in a legitimate matter. According to ARTÍCULO 5° Capítulo II in the Victims Law the law clearly takes the individual victim into protection when relieving the victim the burden of proving the right to the land title (see appendix p. 44), thus making it harder for groups to keep control of the illegally ceased land and sell it to other foreign or domestic actors. This might mean an improvement for the prospects of a reliable land titling system free from corruption and injustice (Ministry of Internal Affairs and Justice of The Republic of Colombia, 2011, p. 9-12, 21-22). Still the problems of the threatening, abusing and assassinating of the activists defending the land title rights of the poor is most present (Presidency of the Colombian Republic, 2012).

Biased Political Power

During all the efforts of land distribution of the 20th century the political power of the latifundio rural elite was disproportionately strong, which hindered agricultural development for the small-sized farmers. Even though many of the projects and laws did contain elements that were to protect the small farmers, they failed because of a lack of political power in the implementation process. (World Bank, 2003, p. 11-13). Still today there is a substantial difference between the urban political agenda and the rural and the latifundistas still have great influence over rural politics, which allows them to engage in collective actions according to the model of induced innovation. The problems of the INCORA period and the Apertura period with weak representation for the rural poor and the threatening, abusing and even assassinating of land distribution activists and labour rights defenders prevail.

International Price Competition

Under the Santos presidency Colombia continues the liberalization of the economy, reducing import subsidies, trade tariffs and gradually eliminating the international and domestic price difference (although keeping the support for some “politically sensitive products”). Major free trade agreements with the EU and USA have been signed opening up the Colombian economy for international competition. Like during the Apertura the pressure from international price distortions are threatening the survival of the Colombian small-scale farming and in August 2013 tens of thousands of farmers went into strike demanding a price guarantee for their harvests. After significant tough negotiations the government agreed to support the farmers (BBC, 2013). It is evident that Colombia still lack measures to prepare the domestic economy and labour force for the impact of international prices and products. As explained the situation of international price competition cannot be referred to as a transaction costs within the model of induced innovation, but the phenomenon does have real implications on the agricultural system of Colombia and must be considered if the Victims Law is to be successful in contributing to increasing agricultural productivity.

Excluding Agricultural Conditions

The government’s agricultural support still discriminates the small-sized farmer and the rural elite can still engage in collective actions to occupy government benefits. Also during the last couple of years these government production benefits are aimed at foreign multinational companies, invited to exploit the natural resources of Colombia, and the commodities produced are still characterized as politically important, giving those industries the support from the government they need. As mentioned in the Apertura section some of the government subsidies are aimed at “politically sensitive crops”, such as the sugar cane production. Since then the spectrum of the commodities that are regarded as politically sensitive has been extended to palm oil, flowers, bananas, several livestock productions as well as oil and mining production. Situations where the

producers of these politically sensitive commodities merge in collective actions have indeed increased.

These commodities do have relatively low use of labour as a production factor and a high use of land and capital. In fact the study of Berry in 1972 is still accurate today, explaining that the ineffectiveness of the Colombian agriculture could partly be explained by the lower use of the production factor labour due to the situation of excess labour. The tendency of the Colombian agricultural to absorb labour is still low.

There is still a sub-utilization of crop production and an over-utilization of livestock production in Colombian agriculture. The Geographical Institute of Agustín Codazzi (IGAC), using statistics from 2009, reports that 21,5 million hectares were suited for agricultural crop production in 2009, but only 4,9 million hectares (22,7 per cent) were used. In contrast 39,2 hectares were used for livestock production, when in reality only 53,8 per cent of that land has the appropriate conditions for that activity (UNDP, 2009, p. 77; World Bank, 1995, p. 31-32).

7. Conclusion

In this study I have analysed the efforts of increasing agricultural productivity by increasing the equality of land distribution during the past century in Colombia and put them into the context of the restitution of land by the Victims Law. My conclusion is that there are significant lessons to be learned from the previous efforts of agricultural reforms:

Looking at the transaction costs and collective actions that have hindered agricultural land reform in Colombia the past century there is no doubt that they represent important structural flaws within the agricultural system. Most transaction costs and collective actions of the Land Law of 1936, the Agrarian

Reform Law of 1961 along with the efforts of INCORA during the 1960s-80s, the market-led reform law (Law 160) of 1994 and the Apertura period in the 1990s, all continue to characterize the present agricultural system. The agricultural system continues to be characterized by rentier capitalism, excluding credit market conditions, problems obtaining land titles, a biased political power, international price competition and excluding agricultural conditions.

Analysed in the model of induced innovation the transaction costs and collective actions are keeping Colombia from changing its combination of production factors from the land intensive production Y to the labour intensive production Z and are instead investing in the existing production technology to move from technology I_0 to I^*_0 . This means that agricultural production will not move from point A towards its comparative advantageous production in point C in the model of induced.

Regarding the prospects of the Victims Law being successful in contributing to an increase in agricultural productivity there are many reasons of remaining sceptic, even if there are aspects of the law and its surrounding conditions to be positive about, such as the stable public finances reducing the rentier capitalism (IMF, 2013), the legal protection of the victimized in the land title process within the Victims Law and the greater intension of increasing availability of the credit market (Departamento Nacional de Planeación, 2011, p. 17). Yet I remain sceptic since there are no great efforts being made to meet the two major difficulties of the biased protections for “politically sensitive products” and the very slow politicisation of the poor farmers and the non-violent labour movement. In fact all transaction costs and collective actions mentioned will most certainly threaten the land restitutions of the Victims Law having a positive effect of agricultural productivity. However these issues are indeed known by the authorities and by analysing the past proved nature and behaviour of these issues they might be avoidable.

7.1. Policy Suggestions

Even though the biased local political power of the rural elite was taken into consideration in the Victims Law when excluding local influence over the implementation of the law and instead forming the executive branch of the law as a separate national institution, the political power representing the small-sized farmer's needs to be strengthened (Ministry of Internal Affairs and Justice of The Republic of Colombia, 2011 p. 10-13).

The victimized small-scale farmers that are given back their lands need to be surrounded by sustainable small-sized farming conditions. Making agricultural production credits available is a fundamental part of that. The poor farmers need to be surrounded by reasonable credit possibilities to be able to invest in their farming. An important lesson can be learned from Law 160 from 1994 where a 70 per cent grant and a 30 per cent credit subsidy were given to poor farmers purchasing land, however no subsidies were given to sustain and develop agricultural activities after the purchase and the gap in production competitiveness between large-sized and small-sized farmers prevailed (World Bank, 2003, p. 11-13).

To transform the Colombian agricultural system from being characterized by rentier capitalism to a balanced and fair market the government needs to reduce the wedge between the supply and demand side of the land market. The Colombian government first needs to keep its macroeconomic sector stable with a low inflation rate and a stable finance system to reduce the profits of holding land as a hedge against inflation. Second the ability of the government's collecting of agricultural income taxes needs to be improved to reduce the attractiveness of land as a tax shelter. Third, price supports and input and credit subsidies needs to be gradually eliminated, but as explained in the section about the "Dutch disease" it has to be done with consideration to international price distortions. This will help to lower the price of farmland (World Bank, 1995, p. 8).

As the report from the World Bank suggests: the current high levels of protection

for products not produced by a comparative advantageous combination of production factors should be gradually reduced, but not eliminated as long as international price distortions exist (World Bank, 2003, p. 43). Another measure that could have been used is the employment buffer plans, which can temporarily employ the workers that were driven into unemployment after the competition of the free market (Jaramillo, 2001, p. 823). This is especially important today in the aftermath of the signing of Colombia's free trade agreements with the European Union and the United States and important lessons can be learned from the introduction of the Apertura in Colombia.

The Colombian government needs to evaluate the criteria for the "politically sensitive products" they support with financial benefits, exploitation titles and price guarantees etc. The incentives for the large and powerful land owners of engaging in collective actions are too high and apart from prevailing an overall inefficient agricultural production there are significant aspects of justice and human rights being undermined as many of these collective actions are allowed. According to the UNDP report from 2009 some seasonal crops, such as corn, rice, beans etc.; essential to the survival of small- and middle-sized and for the food security of Colombia, threatens to be eliminated by the international price competition if not protected by the government (UNDP, 2009).

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9. Appendix – Victim and Land Restitution Law

Appendix 1: How the Law Functions

The Colombian Ministry of Internal Affairs and Justice states that the victims of the armed conflict in Colombia have the right for recognition and indemnity. ARTÍCULO 3° Capítulo II of the Law says that the law recognizes persons who after January 1st of 1985 have been affected by the armed conflict in a way that can be regarded as a violation of international human rights. Victims from before that time will be recognized in a symbolic manner with a guaranty of non-repetition. The victims that seek land restitution will be recognized if the action occurred after January 1st 1991. Somewhat revolutionary, the spouse, partner, same-sex partner and family in first degree relatives of a killed or missing person will be regarded as first degree victims, as well as persons who have suffered violations of their human rights when they intervened in a situation to prevent victimization. Also children and teenager victims will receive special consideration.

The process of social and structural reparation of these victims will be done without abandoning the mechanisms of reintegration in the context of transitional justice, which means that the victims can be recognized regardless of who the aggressor was (Ministry of Internal Affairs and Justice of The Republic of Colombia, 2011, p. 7-13, 19).

ARTÍCULO 5° Capítulo II states that it does not incumbent the victim to prove the action that victimized them. The law assumes in a manner of good faith that the case of the applying victim is true and when the truth of the case is in doubt the state bares the responsibility of proving the opposite. Also the victims may present their case though any legal media channel and if insufficient the administration authorized is obliged to assist in presenting the case in a correct manner (Ministry of Internal Affairs and Justice of The Republic of Colombia, 2011, p. 9-12, 21-22).

A very important part of the law is that it takes great consideration to the context

of transitional justice. Many of the human right violations and land grabbing during the last 20 years have been carried out by armed paramilitary groups, who before 2003 were part of the legal paramilitary section called AUC (Autodefensas Unidas de Colombia), originally established to protect the land and property of large landowners. The Victims Law takes this process of reincorporating the former paramilitary soldiers into the civilian life into consideration (Denissen, 2010, p. 328-330).

Regarding the restitution of land ARTÍCULO 3° Capítulo III says the following: “The Colombian state will adopt the means required for the juridical and material restitution of the land of the deprived and displaced people. If a restitution is not possible, a corresponding compensation will be undertaken”. Reparation actions will go out for land as well as its belonging immobile material. If the restitution of land cannot be done due to the possible endangering of the victim’s life or personal integrity, an alternative restitution of land with similar characteristics shall be offered; only if no other solution can be found shall the victim be compensated financially (Ministry of Internal Affairs and Justice of The Republic of Colombia, 2011 p. 9-12, 46-48).

ARTÍCULO 73° Capítulo III explains that the government aim not just to return the land to the deprived but also to create sustainable social, economic and political conditions for life of dignity and independence. These strategies are a part of the implementation of the rights of the victims after being recognized as victims; meaning financial support, physical protection, health care, education guarantees for preschool level, basic- and medium level, juridical and psychological assistance, so that to be able to return to lead their lives in peace with a guaranty of non-repetition (Ministry of Internal Affairs and Justice of The Republic of Colombia, 2011 p. 9-12, 26-28, 46-48).

To do this the government has created a *National System for Attention and Reparation for the Victims* responsible for the forming or executing the plans, programs, projects and other specific tasks. This new agency is divided into two sections, one administrative and one executive working from a national perspective, but in close corporation with both national and regional government

institutions as well as private organizations regarding especially the elaboration of the implementation of the law (Ministry of Internal Affairs and Justice of The Republic of Colombia, 2011 p. 10-13).

Appendix 2: Critique of the Victims Law

With the Victims Law Colombia has reached a milestone in the process of developing Colombia from a country of drugs, violence and IDPs. Only the recognition that Colombia is in a state of internal conflict that has created the largest number of IDPs in the world is something that the former government of Álvaro Uribe did not do. The signing of the Victims Law before the government entered the peace negotiations with the FARC and ELN might have given the government a useful tool to pressure the guerillas in the negotiations. While the Uribe government wanted to find a military solution to the armed conflict the Santos administration certainly seeks a more humane one.

But some critics argue that Santos' human solution to the conflict is merely a façade to hide behind and keep the status quo for the strong and privileged elite. The Counsel on Hemispheric Affairs has written a report on the ongoing construction of the hydroelectric dam project *EL Quimbo* in the region of Huila in Colombia, threatening to destroy a vast part of the region's rainforest as well as the displacement of nearly 2000 people, making the government itself responsible for the increasing number of IDPs (Counsel on Hemispheric Affairs, 2012).

The element of transitional justice in the Victims Law has been criticized from many human rights activists along with Amnesty International saying that this element implies that Colombia is in a post-conflict status, when in reality the demobilization of the AUC paramilitaries, that was initiated in 2003, have not been fully successful and the armed conflict is still going on. During the year of 2009 paramilitaries BACRIM (Bandas Criminales), were responsible for 32,9 % of the displacements where the perpetrators have been identified, along with the

guerilla groups being responsible for 26,8 % and members of the national military for 1,4 % (Amnesty International, 2012, p. 6).

Looking at ARTÍCULO 3°, Parágrafo 3°, Capítulo II, the definition of the victims recognized by the Victims Law, clearly states that the victimizing indeed has to be directly related to the armed conflict. Consequently the victimizing carried out by the paramilitary forces who were demobilized but took up arms again, operating under a different flag, will not be treated under the victims law but treated as deeds of criminal gangs (Amnesty International, 2012, p. 7).

Critical voices have also been heard about the liability of the government's publishing of results of the first year of the Victims Law. The government claims to have indemnified 150,000 people through the law, when in fact those people were indemnified through other laws (Insight Crime, 2013).

The implementation of the law is going very slow. The government often fails in protection the land-restitution leaders of local communities, and some 20 leaders have been murdered since August 2010 and many more threatened of harm. In an interview President Santos refers to as the problem of *the Black Hand*, when those that have made profit from land grabbing hinder the legal process of restitution (Presidency of the Colombian Republic, 2012). Furthermore there is evidence that the victims that reclaim their land are being assassinated, tortured and threatened (Semana, 2009).

Indeed the Colombian armed conflict is still shedding victims. Paramilitary and guerilla forces as well as drug traffickers still force many Colombians off their rural land and property. In the Harvard Human Rights Journal volume 23, Nicole Summers claims that "there is mounting evidence that palm oil companies, mining corporations, fruit producers, and others have relied on paramilitary groups to help expand and secure their operations in the country" (Summers, 2102, p. 221).

The perhaps biggest concern about the law is that it totally lacks a budget and a plan for how much the government is prepared to spend on the reparation and restitution of the victims. The ministry of finance has made a rough calculation of

the costs of the law after ten years in force to be between 20-40 billion US Dollar (Colombian Senate, 2011). Without a clear budget for the reparation and restitution of the law, the seriousness of the implementation ambitions has been questioned.